

Message Text

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ACTION EA-09

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E.O. 11652: N/A
TAGS: EALR, EGEN, NZ
SUBJECT: PRIME MINISTER ANALYZES LATEST CPI INCREASE

REF: WELLINGTON 0176

BEGIN UNCLASSIFIED

1. AS INDICATED IN PARAGRAPH 5 OF REFTEL, PRIME MINISTER MULDOON WAS CLEARLY DISAPPOINTED AT THE 2.8 PER CENT INCREASE IN THE CPI IN THE LAST QUARTER OF 1976. HE HAD EARLIER PUBLICLY PREDICTED ON SEVERAL OCCASIONS THAT IT WOULD BE DOWN TO BETWEEN TWO AND 2.5 PER CENT. DUE MOSTLY TO THE EFFECTIVENESS OF PRICE AND WAGE FREEZES.

2. MR MULDOON ORDERED AN ANALYSIS OF THE ELEMENTS CONTRIBUTING MOST TO THE CPI INCREASE FOR THE QUARTER.

3. AT THE FIRST CABINET MEETING OF 1977 ON JANUARY 25 1976 (E.G. AUTHORIZING SEVERAL PRICE INCREASES IN THE FIRST HALF OF 1976, A SEVEN PER CENT WAGE INCREASE AT THE END OF JUNE AND A DRASTIC REDUCTION OF A WIDE RANGE OF LIMITED OFFICIAL USE

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CONSUMER SUBSIDIES) MADE HIS OBJECTIVE HARDER TO ACHIEVE, HIS MAIN TARGET DURING 1976 HAS BEEN TO BRING DOWN THE INFLATION RATE. I WAS ESPECIALLY IMPORTANT THAT THE FOURTH QUARTER OF 1976 BE ESPECIALLY LOW TO BALANCE OFF THE HIGHER RATES FOR THE FIRST THREE QUARTERS.

7. WITH THE ENDING OF THE PRICE FREEZE ON DECEMBER 31,

WITH THE LATEST OPEC OIL PRICE INCREASE AND WITH EVEN
GREATER PRESSURE BUILDING UP ON THE WAGE FRONT
(IRONICALLY BASED IN LARGE PART ON THE 1976 CPI INCREASE)
IT IS CLEAR THAT THE SITUATION IS RIPE FOR NOTABLE
INCREASES IN THE CPI DURING AT LEAST THE FIRST PART
OF 1977. END UNCLASSIFIED

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8. THOUGH BY AND LARGE HE STILL HAS GENERAL PUBLIC
SUPPORT FOR HIS STRINGENT ECONOMIC POLICIES, THERE APPEAR
AN INCREASING NUMBER OF ARTICLES AND SOME EDITORIALS
QUESTIONING HOW EFFECTIVE THE PRIME MINISTER HAS BEEN IN CORRECTING
NEW ZEALAND'S ECONOMIC ILLS. WARNINGS OF THE SERIOUS BLOW
TO NZ'S EXPORT EARNINGS THAT A POSSIBLE FALTERING IN
ONE OF THE MAIN ITEMS DISCUSSED WAS THE REPORT OF THIS
ANALYSIS. THE REPORT SHOWED THAT ITEMS SUCH AS IMPORTED
GOODS AND WOMEN'S CLOTHING WHICH WERE NOT SUBJECT TO THE
PRICE FREEZE (SEE REFTTEL) CONTRIBUTED TO 34 PER CENT OF
THE QUARTERLY INCREASE. ANOTHER 10 PER CENT CAME FROM
PRICE INCREASES AUTHORIZED BEFORE THE QUARTER BEGAN.
HOME-OWNERSHIP COST INCREASES DATING FROM THE FIRST OF
1976 ADDED 20.6 PERCENT. AN INCREASE IN THE COST OF
FOOTWEAR DATING BACK TO 1975 BUT TAKING UNTIL DECEMBER
1976 TO SHOW IN THE CPI ADDED ANOTHER EIGHT PER CENT.
PRICE RISES IN GOODS SUBJECT TO THE FREEZE CONTRIBUTED
ONLY ONE PER CENT.

4. AFTER THE CABINET MEETING MR. MULDOON, SPOKE TO THE
PRESS OF THESE "VARIOUS TECHNICAL FACTORS OF A STATISTICAL
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NATURE" WHICH GAVE RISE TO "THIS CONFUSION". HE
DESCRIBED THE FIGURES AS "VERY, VERY COMPLEX", BUT HE WAS
SATISFIED THAT NO BREAK IN THE PRICE FREEZE HAD CONTRIBUTED
TO THE INCREASE.

5. BUT NOTWITHSTANDING THIS EXPLANATION OF THE "COMPLEX
TECHNICAL FACTORS", THE PRIME MINISTER WAS CLEARLY STILL
DISAPPOINTED. HE HAD BEEN COUNTING STRONGLY THAT THE
CPI INCREASE FOR THE LAST QUARTER OF 1976 WOULD DROP
BELOW 2.5 PER CENT. HE NO DOUBT HAD GREAT HOPE TO POINT
TO THIS AS PROOF THAT HIS ECONOMIC POLICIES WERE WORKING.

6. THOUGH SEVERAL OF HIS ECONOMIC MEASURES DURING
1977 OF ECONOMIC RECOVERY IN THE MAIN INDUSTRIAL
COUNTRIES MIGHT HAVE ARE MORE FREQUENTLY GIVEN. THIS
AND INCREASING PRESSURE AMONG OTHER MEMBERS IN THE EEC
TO CUT THE CONTINUED SPECIAL ADVANTAGES THAT NZ'S
LAMB, CHEESE AND BUTTER EXPORTS TO THE UK ENJOY ARE A
CONTINUING WORRY AMONG NEW ZEALANDERS.

9. THOUGH HE HAS ONLY SLIGHT INFLUENCE OVER MOST OF
THESE DEVELOPMENTS OUTSIDE OF NEW ZEALAND, HOW EFFECTIVE
MULDOON WILL BE IN DEALING WITH THE PROBLEMS THEY
CREATE FOR NZ IN 1977 WILL UNDOUBTEDLY PLAY A MAJOR PART
IN DECIDING THE SUPPORT NEW ZEALANDERS WILL
GIVE TO HIS NATIONAL PARTY IN 1978. AS HE
RECENTLY SAID, 1977 WILL BE A "CRUNCH YEAR".
SELDEN

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